

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Improving Retirement Security for America's Workers

Wednesday, June 6, 2018, 10:00 AM

By Michael G. Bindner
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Chairman Neal and Ranking Member Brady, thank you for the opportunity to submit my comments on this topic. Let me remind the Committee that official projections by the Trustees are required to be conservative. As the Economic Policy Institute found many years ago when attempts were being made to justify personal accounts in Social Security, there is truly no solvency problem if more realistic estimates are used. Of course, that relates to the system as a whole, not on how the Trust Fund is to be reimbursed, as we reiterate below. These remarks reflect those made to prior Congresses. They remain applicable, for the most part.

Lessons from the Great Recession

The 2008 Recession triggered a much longer asset-based Depression. This had both temporary and permanent effects on the trust fund's cash flow. The temporary effect was a decline in revenue caused by a slower economy and the temporary cut in payroll tax rates to provide stimulus that has since been repealed, although the amount was added to the Trust Fund for later withdrawal, regardless of contributions not made.

The permanent effect is the early retirement of many who had planned to work longer, but because of the recent recession and slow recovery, this cohort has decided to leave the labor force for good when their extended unemployment ran out. This cohort is the older 77ers and 99ers who needed some kind of income to survive. The combination of age discrimination and the ability to retire has led them to the decision to retire before they had planned to do so, which impacts the cash flow of the trust fund, but not the overall payout (as lower benefit levels offset the impact of the decision to retire early on their total retirement cost to the system). In addition, it has been made easier for workers over 50 to retire on disability (as I have done), with many of us approved on the first try.

The Reagan-Pepper Compromise

When Social Security was saved in the early 1980s, payroll taxes were increased to build up a Trust Fund for the retirement of the Baby Boom generation. The building of this allowed the government to use these revenues to finance current operations, allowing the President and his allies in Congress to honor their commitment to preserving the last increment of his signature tax cut. The trust fund is now coming due, so it is entirely appropriate to rely on increased income tax revenue to redeem them. It would be entirely inappropriate to renege on these promises by further extending the retirement age or by enacting an across the board increase to the OASI payroll tax as a way to subsidize current spending or tax cuts.

The cash flow problems experienced by the trust fund are not the trust fund's problem, but a problem for the Treasury to address, either through further borrowing – which will require continued comity on renewing the debt limit – or the preferable solution: higher for those who received the lion's share of the benefits from the tax cuts of 1981, 1986, 2001, 2003 and 2017.

The ultimate cause of the trust fund's long term difficulties is not financial but demographic. Thus, the solution must also be demographic – both in terms of population size and income distribution. The largest demographic problem facing Social Security, Medicare and Medicaid, is the aging of the population. In the long term, the only solution for that aging is to provide a decent income for every family through more generous tax benefits.

The free market will not provide this support without such assistance, preferring instead to hire employees as cheaply as possible. Only an explicit subsidy for family size overcomes this market failure, leading to a reverse of the aging crisis.

We propose a \$1000 per month refundable child tax credit payable with wages as part of our proposal for a Net Business Receipts Tax. This will take away the disincentive to have kids a slow economy provides. Within twenty years, a larger number of children born translates into more workers, who in another decade will attain levels of productivity large enough to reverse the demographic time bomb faced by Social Security in the long term.

Sadly, we first made this recommendation eight years ago, which is a lost opportunity to expand family size for most of a generation.

Such an approach is superior to proposals to enact personal savings accounts as an addition to Social Security, as such accounts implicitly rely on profits from overseas labor to fund the dividends required to fill the hole caused by the aging crisis. This approach cannot succeed, however, as newly industrialized workers always develop into consumers who demand more income, leaving less for dividends to finance American retirements. The answer must come from solving the demographic problem at home, rather than relying on development abroad.

This proposal will also reduce the need for poor families to resort to abortion services in the event of an unplanned pregnancy. Indeed, if state governments were to follow suit in increasing child tax benefits as part of coordinated tax reform, most family planning activities would be to increase, rather than prevent, pregnancy. **It is my hope that this fact is not lost on the Pro-Life Community, who should score support for this plan as an essential vote in maintaining a perfect pro-life voter rating.**

This is not to say that there is no room for reform in the Social Security program. As I wrote in the January 2003 issue of *Labor and Corporate Governance*, Congress should equalize the employer contribution based on average income rather than personal income. It should also increase or eliminate the cap on contributions. The higher the income cap is raised, the more likely it is that personal retirement accounts are necessary.

A major strength of Social Security is its income redistribution function. I suspect that much of the support for personal accounts is to subvert that function – so any proposal for such accounts must move redistribution to account accumulation by equalizing the employer contribution.

I propose directing personal account investments to employer voting stock, rather than an index funds or any fund managed by outside brokers. There are no Index Fund billionaires (except those who operate them). People become rich by owning and controlling their own companies. Additionally, keeping funds in-house is the cheapest option administratively. I suspect it is even cheaper than the Social Security system – which operates at a much lower administrative cost than any defined contribution plan in existence.

If employer voting stock is used, the Net Business Receipts Tax/Subtraction VAT would fund it. If there are no personal accounts, then the employer contribution would be VAT funded.

Safety is, of course, a concern with personal accounts. Rather than diversifying through investment, however, I propose diversifying through insurance. A portion of the employer stock purchased would be traded to an insurance fund holding shares from all such employers. Additionally, any personal retirement accounts shifted from employee payroll taxes or from payroll taxes from non-corporate employers would go to this fund.

The insurance fund will serve as a safeguard against bad management. If a third of shares were held by the insurance fund than dissident employees holding 25.1% of the employee-held shares (16.7% of the total) could combine with the insurance fund held shares to fire management if the insurance fund agreed there was cause to do so. Such a fund would make sure no one loses money should their employer fail and would serve as a sword of Damocles' to keep management in line. This is in contrast to the Cato/ PCSSS approach, which would continue the trend of management accountable to no one. The other part of my proposal that does so is representative voting by occupation on corporate boards, with either professional or union personnel providing such representation.

The suggestions made here are much less complicated than the current mix of proposals to change bend points and make OASI more of a needs based program. If the personal account provisions are adopted, there is no need to address the question of the retirement age. Workers will retire when their dividend income is adequate to meet their retirement income needs, with or even without a separate Social Security program.

No other proposal for personal retirement accounts is appropriate. Personal accounts should not be used to develop a new income stream for investment advisors and stock traders. It should certainly not result in more “trust fund socialism” with management that is accountable to no cause but short term gain. Such management often ignores the long-term interests of American workers and leaves CEOs both over-paid and unaccountable to anyone but themselves.

If funding comes through an NBRT, there need not be any income cap on employer contributions, which can be set high enough to fund current retirees and the establishing of personal accounts. Again, these contributions should be credited to employees regardless of their salary level.

Conceivably a firm could reduce their NBRT liability if they made all former workers and retirees whole with the equity they would have otherwise received if they had started their careers under a reformed system. Using Employee Stock Ownership Programs can further accelerate that transition. This would be welcome if ESOPs became more democratic than they are currently, with open auction for management and executive positions and an expansion of cooperative consumption arrangements to meet the needs of the new owners.

We also suggest a floor in the employer contribution to OASI, ending the need for an EITC – the loss would be more than up by gains from an equalized employer contribution – as well as lowering the ceiling on benefits. Since there will be no cap on the employer contribution, we can put in a lower cap for the employee contribution so that benefit calculations can be lower for wealthier beneficiaries, again reducing the need for bend points.

The new Majority should not run away from this proposal to enact personal accounts. If the proposals above are used as conditions for enactment, we suspect that it won't have to. The investment sector will run away from them instead and will mobilize the next version of the Tea Party against them. Let us hope that the rise of Democratic Socialism in the party invests workers in the possibilities of employee ownership.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

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This submission is made on behalf of no clients, persons and/or organizations on whose behalf the witness appears.